

Message Text

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FM AMEMBASSY MADRID

TO SECSTATE WASHDC 1222

INFO AMEMBASSY LISBON

AMEMBASSY PARIS

C O N F I D E N T I A L SECTION 1 OF 2 MADRID 5745

USOECD

E.O. 11652: GDS

TAGS: PINT, ECON, SP

SUBJECT: GROWING OPPOSITION TO ECONOMIC PROGRAM

REF: MADRID 5347, 5632, AND 5666

1. SUMMARY: AS MORE DETAILS OF NEW ECONOMIC PROGRAM BECOME KNOWN, OPPOSITION AND CRITICISM ARE GROWING. THE POLITICAL LEFT AND ORGANIZED LABOR CHARGE THAT THE GOVERNMENT IS ATTEMPTING TO PLACE THE BURDEN OF RECOVERY ON THE WORKER BY RESTRICTING WAGE INCOMES TO CURB INFLATION, WHILE OFFERING INSUFFICIENT FISCAL AND STRUCTURAL REFORM AND INADEQUATE MEASURES TO EASE UNEMPLOYMENT. THE VERY WEALTHY AND MUCH OF BIG BUSINESS ARE SUSPICIOUS OF THE GOVERNMENT'S INTENTIONS AND FEARFUL OF A SWING TO THE LEFT TO PLACATE LABOR. WITH A FEW EXCEPTIONS, THEY ARE REMAINING PUBLICLY SILENT, BUT MANEUVERING BEHIND THE SCENES ATTEMPTING TO FORCE MODIFICATION OR ABANDONMENT OF REFORM MEASURES THEY FEAR MOST. BUSINESSMEN ASSOCIATIONS ARE PROVIDING

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THEIR VIEWS ON THE PROGRAM, URGING CHANGES IN SPECIFIC MEASURES. THE STOCK MARKET CONTINUES TO DECLINE AND THE CURRENT INVESTMENT OUTLOOK REMAINS GLOOMY. THERE ARE SOME STRAINS WITHIN THE UCD OVER EMPHASIS AND PRESENTATION OF ECONOMIC POLICY, BUT THE GOVERNMENT GIVES EVERY INDICATION OF PROCEEDING WITH ITS PROGRAM WHILE INTENSIFYING AND IMPROVING ITS PUBLIC PRESENTATION

EFFORTS. END SUMMARY.

2. NOW THAT THE GOVERNMENT HAS OUTLINED MORE SPECIFICALLY ITS PROPOSED ECONOMIC MEASURES AND HAS BEGUN TO IMPLEMENT SOME OF THEM (MADRID 5632) IT IS UNDER ATTACK FROM NEARLY ALL QUARTERS. CRITICISM AND OPPOSITION NOW BUILDING UP ARE IN SHARP CONTRAST TO GENERALLY FAVORABLE REACTION TO THE INITIAL STATEMENT OF ECONOMIC POLICY FOLLOWING THE FIRST CABINET MEETING OF JULY 11 (MADRID 5347). THERE IS ALSO SOME DIVISION WITHIN THE GOVERNMENT ITSELF ON HOW PARTICULAR PROPOSED MEASURES SHOULD BE DISCUSSED WITH THE VARIOUS INTEREST GROUPS, AND PRIME MINISTER SUAREZ HAS REINED IN CABINET MINISTERS WHO ARE MAKING UNCLEARED POLICY STATEMENTS.

3. THE MAJOR OPPOSITION PARTY, SOCIALIST PSOE, BROKE ITS PUBLIC SILENCE WHEN FELIPE GONZALES CRITICIZED IN PARLIAMENT THE GOVT'S ECONOMIC PROGRAM AS DEPENDING ON TWO MEASURES WHICH WOULD PLACE THE BURDEN ON WORKERS AND SMALL-TO-MEDIUM BUSINESS - FREEZING SALARIES AND RESTRICTIVE MONETARY POLICY (MADRID 5666). ON JULY 28, THE PSOE EXECUTIVE COMMITTEE APPROVED AND PUBLISHED A COMMUNIQUE CRITICIZING THE GOVERNMENT'S PROGRAM FOR PLACING UNDUE EMPHASIS ON INFLATION AND DOWNPLAYING UNEMPLOYMENT. THE COMMUNIQUE CHARGED THE GOVT. WITH (A) FAILING TO CONTROL NON-SALARY INCOMES WHICH ALSO

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CONTRIBUTE TO INFLATION; (B) IGNORING SECTORAL PROBLEMS IN AGRICULTURE, LAND, HOUSING AND TRANSPORT; (C) FAILING TO RECOGNIZE FULL UNION RIGHTS AND TO RETURN UNION PATRIMONY CONFISCATED FOLLOWING THE CIVIL WAR; AND (D) FAILING TO MATCH THE BURDEN ON LABOR WITH DEMONSTRABLY FEASIBLE TAXATION OF HIGHER INCOMES. THE ONLY POSITIVE ELEMENTS THE PSOE FOUND IN THE GOVERNMENT'S PROGRAM WERE ABOLITION OF BANK SECRECY, ESTABLISHMENT OF TAX FRAUD AS A CRIME, AND INSTITUTION OF A WEALTH TAX. COMMUNIST PCE SEC GEN SANTIAGO CARRILLO DECLARED THAT HIS PARTY COULD NOT ACCEPT THE SACRIFICES CALLED FOR AND THAT NO GOVT. LACKING WORKER PARTICIPATION COULD EXPECT SUCH SACRIFICES. RIGHT WING AP LEADER FRAGA IRIBARNE HAS FAULTED THE GOVT. MEASURES AS FALLING MOST HEAVILY ON THE MIDDLE CLASSES, WHO CANNOT PROTECT THEMSELVES LIKE EITHER LABOR OR AFFLUENT INDUSTRIALISTS AND FINANCIERS, AND WHO WILL END UP BEARING THE BRUNT OF HIGHER TAXATION AND CREDIT RESTRICTIONS.

4. LEADING SOCIALIST AND COMMUNIST ECONOMISTS HAVE FILED PUBLIC CRITICISM OF THE GOVERNMENT'S INTENTIONS. MIGUEL MUNIZ (PSOE) ATTACKS THE PROGRAM AS IGNORING

INSTITUTIONAL CHANGE AND AS MERELY AN ATTEMPT TO RE-
ESTABLISH BUSINESS PROFITS BY RESTRICTING WAGES WHICH,
HE POINTS OUT, REPRESENT ONLY 55 PERCENT OF NATIONAL
INCOME AND SHOULD NOT BE HELD FULLY RESPONSIBLE FOR
INFLATION. WHILE FINDING MERIT IN SOME OF THE TAX
REFORM MEASURES, MUNIZ CHARGES THEY ARE INSUFFICIENT
TO REDISTRIBUTE INCOME OR TO PROVIDE RESOURCES NECESSARY
FOR PUBLIC EXPENDITURE TO FIGHT UNEMPLOYMENT.
IN A SIMILAR POLEMIC, RAMON TAMAMES (PCE) DERIDES
THE GOVERNMENT PROGRAM AS ANTISOCIAL IN PROPOSING
A REDUCTION IN WORKERS' REAL WAGES, INSUFFICIENT IN
THE PUBLIC RESOURCES PLANNED TO CREATE JOBS, AND UN-
VIABLE WITHOUT A COMPLETE RESTRUCTURING OF SOCIAL AND
ECONOMIC INSTITUTIONS.
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5. MAJOR LABOR ORGANIZATIONS HAVE ALL REJECTED CON-
TROLS ON WAGES TO CURB INFLATION. THE SOCIALIST UGT
SECGEN NICOLAS REDONDO HAS DECLINED COOPERATION IN
HOLDING THE LID ON WAGE INCREASES WHILE PRICES ARE
RISING MORE THAN 25 PERCENT ANNUALLY (WE HAVE HEARD

OF ONE FIRM IN VIZCAYA WHICH ONLY A FEW DAYS AGO AGREED TO A NEW CONTRACT CONTAINING A WAGE INCREASE BETWEEN 20 AND 30 PERCENT), TAXES ARE NOT BEING PAID BY THE WEALTHY, AND INVESTORS ARE ON "FULL STRIKE." HE ALSO DISMISSED THE 32,000 MILLION PESETA (\$375 MILLION) PUBLIC WORKS PROGRAM APPROVED BY THE JULY 29 COUNCIL OF MINISTERS MEETING AS GROSSLY INADEQUATE TO COMBAT UNEMPLOYMENT. AS AN ALTERNATIVE TO THE GOVERNMENT'S PROGRAM, THE UGT CENTRAL COMMITTEE HAS PROPOSED A SERIES OF MEASURES TO HELP LABORERS INCLUDING EXTENSION OF UNEMPLOYMENT BENEFITS; STATE FINANCING OF SOCIAL SECURITY; PRICE CONTROLS ON BASIC SERVICES (SUCH AS HOUSING, HEALTH, TRANSPORT AND EDUCATION); STRONG INCREASES IN TAXES ON NON-SALARY INCOME, WEALTH AND INHERITANCE; AND STRICTER INSPECTION OF LARGE PRIVATE BANKS.

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THE UGT ALSO PLANS TO PROPOSE NEW LAWS RELATING TO UNION ACTION IN FIRMS, THE REGULATION OF STRIKES, AND COLLECTIVE BARGAINING. MARCELINO CAMACHO OF THE COMMUNIST-DOMINATED WORKERS COMMISSIONS HAS ACCUSED THE SUAREZ CABINET OF BEING A MINORITY GOVERNMENT ATTEMPTING TO PLACE THE BURDEN OF RECOVERY ON THE SHOULDERS OF THE WEAKEST CLASSES. IN THE FACE OF WHAT HE SEES AS A CLOSING OF CAPITALIST RANKS, CAMACHO HAS CALLED FOR TALKS WITH THE UGT AND USO FOR WORKER UNITY.

6. BUSINESSMEN REMAIN SUSPICIOUS OF THE GOVERNMENT'S INTENTIONS AND FEARFUL THAT THE SUAREZ GOVERNMENT MANY OF THEM HELPED ELECT IS MOVING TOO FAR LEFT IN AN EFFORT TO PLACATE LABOR. THEY ARE AGHAST AT STATEMENTS BY LABOR MINISTER JUMENEZ DE PARGA ACCUSING SPANISH BUSINESS OF BEING OLD FASHIONED AND OVERLY SECRETIVE AND CALLING FOR MORE WORKER PARTICIPATION IN MANAGEMENT DECISIONS. BUSINESSMEN ASSOCIATIONS IN BOTH MADRID AND BARCELONA HAVE PRESENTED THE GOVERNMENT WITH WRITTEN OPINIONS ON THE ECONOMIC PROGRAM EMPHASIZING THE NEED FOR MODERATION IN APPLYING FISCAL REFORM AND CALLING FOR MEASURES TO ALLOW MORE FREEDOM IN HIRING AND FIRING TO IMPROVE PRODUCTIVITY AND ENCOURAGE NEW INVESTMENT. MANY OF THE LARGEST BANKS, INDUSTRIAL ENTERPRISES, AND THE VERY WEALTHY ARE MAINTAINING PUBLIC SILENCE BUT ARE KNOWN TO BE EXERTING PRESSURE IN AN ATTEMPT TO FORCE MODIFICATIONS IN THOSE PARTS OF THE GOVERNMENT PROGRAM THEY MOST FEAR - LIMITATIONS ON BANK SECRECY, FISCAL REFORM, AND MEASURES TO BREAK DOWN PRIVILEGED FINANCIAL CIRCUITS AND INTRODUCE MORE COMPETITION. ON THE OTHER HAND, SEVERAL OF SPAIN'S MOST IMPORTANT PRIVATE BANKS (HISPANO AMERICANO, BILBAO, POPULAR, AND URQUIJO) HAVE ISSUED STATEMENTS

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IN SUPPORT OF THE GOVERNMENT'S PROGRAM WHICH THEY FIND "CONGRUENT AND HARMONIOUS" ALTHOUGH POORLY EXPLAINED TO THE PUBLIC. THEY NOTE THAT MORE RESTRICTIVE MONETARY POLICY WILL POSE UNCOMFORTABLE PROBLEMS FOR BUSINESSMEN, AND REDUCING INFLATION WILL IN THE SHORT RUN AGGRAVATE UNEMPLOYMENT FOR WHICH AUGMENTED UNEMPLOYMENT BENEFITS WILL BE NEEDED. NEVERTHELESS, THEY BELIEVE THE MEASURES ARE UNAVOIDABLE, HOWEVER UNPOPULAR. AS INDICATORS OF THE PRESENT LACK OF BUSINESS CONFIDENCE, THE STOCK MARKET DECLINES DAILY (DOWN 20 POINTS SO FAR THIS YEAR) AND THE INVESTMENT OUTLOOK FOR THIS QUARTER REMAINS POOR ACCORDING TO THE INDUSTRY MINISTRY'S LATEST MONTHLY SURVEY. ALONG WITH UNCERTAINTIES OVER GOVERNMENT POLICY, FINANCING DIFFICULTIES, DECAPITALIZATION, AND WEAK INTERNAL DEMAND ARE THE FACTORS MOST CITED AS RESPONSIBLE FOR THE GLOOMY OUTLOOK.

7. THE GOVERNMENT IS FACED WITH THE NEED TO MAINTAIN UNITY OF DIRECTION AMONG THE VARIOUS SOCIO-ECONOMIC IDEOLOGIES OF WHICH IT IS COMPOSED AND TO CONTROL FREE-WHEELING BY INDIVIDUAL MINISTERS, WHILE AT THE SAME TIME EXPLAINING ITS AIMS, POLICIES, AND IMPLEMENTING MEASURES MORE CLEARLY TO THE PUBLIC. LABOR MINISTER JIMENEZ DE PARGA'S STATEMENTS CRITICIZING BUSINESSMEN AND IMPLYING WORKER SELF MANAGEMENT HAVE SPARKED SEVERE CRITICISM FROM SOME OF HIS CABINET COLLEAGUES AS WELL AS FROM BUSINESS GROUPS WHO NOTE POINTEDLY THAT THE UCD WON THE ELECTION WITH A FREE ENTERPRISE PLATFORM. AS A RESULT, THE GOVERNMENT HAS DENIED THAT THE LABOR MINISTER'S REMARKS REPRESENT GOVERNMENT POLICY, AND SUAREZ WILL REPORTEDLY INSIST ON CONTROLLING AND APPROVING ALL FUTURE POLICY STATEMENTS. AT THE SAME TIME, TO IMPROVE ITS PUBLIC RELATIONS AND GAIN BROADER UNDERSTANDING AND ACCEPTANCE OF ITS PROGRAM, THE GOVERNMENT HAS KEY MINISTERS PUBLISHING EXPLANATIONS OF THE

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MEASURES BEING ADOPTED AND PLANS A SERIES OF INFORMATIVE TELEVISION APPEARANCES BY SELECTED MINISTERS, PROBABLY BEGINNING THIS WEEK WITH VICE PRESIDENT AND MINISTER OF ECONOMY FUENTES QUINTANA.

8. COMMENT. OPPOSITION BEING VOICED TO THE GOVERNMENT'S

PROGRAM IS NOT SURPRISING AND PREDICTABLY REFLECTS THE PARTICULAR INTEREST OF EACH ELEMENT OF SPANISH SOCIETY IN MINIMIZING THE BURDEN IT MUST BEAR. THE VERY WEALTHY DO NOT FAVOR REFORM AND ARE FEARFUL HOW SWEEPING IT MAY BE. THE BROADER MIDDLE CLASS OF PROFESSIONALS, WHITE COLLAR WORKERS, AND SMALL BUSINESSMEN SUSPECT THEY WILL CARRY THE LOAD OF HIGH TAXATION AND CREDIT RESTRICTION, AND LABORERS SEE AN END TO INCOME DISTRIBUTION THROUGH WAGES EXCEEDING INFLATION IN EXCHANGE FOR STILL UNCERTAIN REFORMS. AS OF NOW, THE STRAINS WITHIN THE UCD OVER ECONOMIC POLICY APPEAR CONTROLLABLE, AND THE ALMOST DAILY ANNOUNCEMENT OF NEW IMPLEMENTING MEASURES INDICATES THAT THE GOVERNMENT IS DETERMINED TO PROCEED UNABASHED WITH ITS PROGRAM. STABLER

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Subject: GROWING OPPOSITION TO ECONOMIC PROGRAM
TAGS: PINT, ECON, SP
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